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**PRINCIPLES OF ACCOUNTS**

**7110/12**

Paper 1 Multiple Choice

**October/November 2015**

**1 hour**

Additional Materials: Multiple Choice Answer Sheet  
Soft clean eraser  
Soft pencil (type B or HB is recommended)



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**READ THESE INSTRUCTIONS FIRST**

Write in soft pencil.

Do not use staples, paper clips, glue or correction fluid.

Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.

**DO NOT WRITE IN ANY BARCODES.**

There are **thirty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A, B, C** and **D**.

Choose the **one** you consider correct and record your choice in **soft pencil** on the separate Answer Sheet.

**Read the instructions on the Answer Sheet very carefully.**

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.

Any rough working should be done in this booklet.

Calculators may be used.

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This document consists of **10** printed pages and **2** blank pages.

1 What is prepared by a book-keeper?

- A appropriation account
- B cash book
- C income statement
- D statement of financial position

2 A trader provided the following information.

|                     | \$      |
|---------------------|---------|
| capital             | 250 000 |
| current assets      | 26 000  |
| non-current assets  | 300 000 |
| current liabilities | 15 000  |

What was the total of the non-current liabilities?

- A \$35 000      B \$61 000      C \$76 000      D \$91 000

3 Which item would be recorded by a credit entry in an account?

- A a decrease in capital
- B a decrease in liabilities
- C an increase in assets
- D an increase in capital

4 Harvey bought goods on credit from Janet. The goods were unsuitable and Harvey returned them to Janet.

Which document did Harvey send to Janet?

- A credit note
- B debit note
- C invoice
- D statement of account

5 On 1 May Bashir purchases goods on credit with a list price of \$200. He is given a trade discount of \$20. If payment is made within 28 days a cash discount of \$10 will be given.

Which amount is credited to the supplier's account on 1 May?

- A \$170      B \$180      C \$190      D \$200

- 6 Farouk sells goods on credit. A cheque from Ahmed, a credit customer, was dishonoured by the bank.

How does Farouk record this?

|          | account to be debited | account to be credited |
|----------|-----------------------|------------------------|
| <b>A</b> | Ahmed                 | bad debts              |
| <b>B</b> | Ahmed                 | bank                   |
| <b>C</b> | bad debts             | Ahmed                  |
| <b>D</b> | bank                  | Ahmed                  |

- 7 Sally buys goods and is allowed a discount for early payment.

How does Sally record this discount?

|          | account to be debited | account to be credited |
|----------|-----------------------|------------------------|
| <b>A</b> | discount allowed      | supplier               |
| <b>B</b> | discount received     | supplier               |
| <b>C</b> | supplier              | discount allowed       |
| <b>D</b> | supplier              | discount received      |

- 8 Which item is represented by a debit balance on a ledger account?

- A** accrued expense
- B** liability
- C** prepaid expenses
- D** revenue

- 9 The following account appears in the ledger of Chan.

| Fu account     |            |                   |            |
|----------------|------------|-------------------|------------|
| 2015           | \$         | 2015              | \$         |
| Aug 28 bank    | 100        | Aug 1 balance b/d | 100        |
| 31 balance c/d | <u>250</u> | 12 purchases      | <u>250</u> |
|                | <u>350</u> |                   | <u>350</u> |

Which statement is correct?

- A** On 1 August Chan is owed \$100 by Fu.  
**B** On 12 August Fu purchased goods, \$250, from Chan.  
**C** On 28 August Chan paid Fu \$100 by cheque.  
**D** On 31 August Fu is a debtor of Chan for \$250.
- 10 The following ledger account appeared in the books of a trader.

| Rent account      |             |                         |               |
|-------------------|-------------|-------------------------|---------------|
|                   | \$          |                         | \$            |
| Jan 1 balance b/d | 600         | Dec 31 income statement | 7250          |
| Dec 31 bank       | 6300        |                         |               |
| balance c/d       | <u>350</u>  |                         | <u>      </u> |
|                   | <u>7250</u> |                         | <u>7250</u>   |

What does the balance on 31 December represent?

- A** rent payable outstanding  
**B** rent payable prepaid  
**C** rent receivable outstanding  
**D** rent receivable prepaid
- 11 On 1 January 2014 a trader had prepaid general expenses. During the year further general expenses were paid. On 31 December 2014 general expenses were accrued.

How did the trader calculate the general expenses for the year ended 31 December 2014?

- A** amount paid + opening prepayment + closing accrual  
**B** amount paid + opening prepayment – closing accrual  
**C** amount paid – opening prepayment + closing accrual  
**D** amount paid – opening prepayment – closing accrual

12 A trader decides to change his provision for doubtful debts from 2% to 3% of trade receivables.

Which entry is made to record this?

|          | debit                        | credit                       |
|----------|------------------------------|------------------------------|
| <b>A</b> | bad debts                    | income statement             |
| <b>B</b> | income statement             | bad debts                    |
| <b>C</b> | income statement             | provision for doubtful debts |
| <b>D</b> | provision for doubtful debts | income statement             |

13 Which item is a capital receipt for the owner of a bakery?

- A** cash discount from a supplier of flour
- B** cash from sale of a wedding cake
- C** proceeds from the sale of an oven
- D** refund of rent from the landlord

14 Hassan depreciates his machinery at 20% per annum using the diminishing (reducing) balance method. No depreciation is charged in the year of disposal.

He provided the following information.

|   | \$     |
|---|--------|
| net book value of machinery on 30 April 2014            | 36 000 |
| machine disposed of during the year ended 30 April 2015 |        |
| cost of machine   | 4 000  |
| depreciation on machine                                 | 1 440  |

How much did Hassan charge for depreciation for the year ended 30 April 2015?

- A** \$6400      **B** \$6688      **C** \$6912      **D** \$7200

15 Which statement about depreciation is correct?

- A** In the diminishing (reducing) balance method the depreciation charge increases each year.
- B** In the straight line method the residual value can never fall to zero.
- C** The straight line and diminishing (reducing) balance method are both suitable for loose tools.
- D** The straight line and diminishing (reducing) balance methods can both use a percentage rate.

16 Henri has charged Thibault interest on his overdue account.

Where does this interest appear in Thibault's control accounts?

- A on the credit side of the purchases ledger control account
- B on the credit side of the sales ledger control account
- C on the debit side of the purchases ledger control account
- D on the debit side of the sales ledger control account

17 Brian's inventory included one item which had cost \$240. The item needed repair at a cost of \$30. After repair, the item could be sold for \$260.

At what value should the item be recorded in Brian's inventory?

- A \$230                      B \$240                      C \$260                      D \$270

18 Ram provided the following information on 31 December 2014.

|              | \$            |                     | \$             |
|--------------|---------------|---------------------|----------------|
| total assets | 30 400        | capital             | 20 000         |
|              |               | profit for the year | 6 000          |
|              |               | drawings            | <u>(4 500)</u> |
|              |               |                     | 21 500         |
|              | _____         | long-term loan      | <u>8 900</u>   |
|              | <u>30 400</u> |                     | <u>30 400</u>  |

How much were the owner's capital and capital employed on 31 December 2014?

|          | owner's capital<br>\$ | capital employed<br>\$ |
|----------|-----------------------|------------------------|
| <b>A</b> | 20 000                | 21 500                 |
| <b>B</b> | 20 000                | 30 400                 |
| <b>C</b> | 21 500                | 20 000                 |
| <b>D</b> | 21 500                | 30 400                 |

- 19 On 1 January 2014 Bill started a gardening business. He provided the following information for the year ended 31 December 2014.

|                           | \$     |
|---------------------------|--------|
| receipts from customers   | 19 500 |
| van expenses              | 280    |
| garden machinery expenses | 150    |
| general expenses          | 6 000  |
| cash drawings             | 10 000 |

On 31 December 2014 customers owed Bill \$1720.

What was Bill's profit for the year?

- A** \$3070      **B** \$4790      **C** \$13070      **D** \$14 790
- 20 Rajid and Sunil formed a partnership on 1 January 2014 but did not prepare a partnership agreement.

They provided the following information.

|  | Rajid    | Sunil    |
|--|----------|----------|
| capital introduced 1 January 2014      | \$40 000 | \$20 000 |
| during the year ended 31 December 2014 |          |          |
| drawings                               | \$5 000  | \$3 500  |
| share of work                          | 50%      | 50%      |

They decide to draw up a partnership agreement for future years.

Which item would be most beneficial to Rajid in 2014?

- A** interest on capital  
**B** interest on drawings  
**C** limit on annual drawings  
**D** partnership salaries

- 21 X and Y were sole traders. They decided to amalgamate their businesses and to share profits and losses in the ratio 2:1. They brought into the partnership assets of \$30 000 and \$29 000 respectively. Y's assets included goodwill of \$9000. Goodwill was not to be retained in the accounts of the partnership.

What was the opening capital of each partner?

|          | X<br>\$ | Y<br>\$ |
|----------|---------|---------|
| <b>A</b> | 21 000  | 29 000  |
| <b>B</b> | 24 000  | 26 000  |
| <b>C</b> | 27 000  | 23 000  |
| <b>D</b> | 30 000  | 29 000  |

- 22 Hill Tennis Club received \$32 000 in subscriptions during the year. At the year end subscriptions of \$350 were owed by members and \$450 had been paid in advance for the next year.

How much was transferred to the income and expenditure account for subscriptions?

- A** \$31 200      **B** \$31 900      **C** \$32 100      **D** \$32 800

- 23 A sports club was formed on 1 January 2014. During the year ended 31 December 2014 the club purchased equipment costing \$5000, paying by cheque.

In which of the club's financial statements did this appear?

|          | receipts and payments<br>account | income and expenditure<br>account | statement of financial<br>position |
|----------|----------------------------------|-----------------------------------|------------------------------------|
| <b>A</b> |                                  |                                   | ✓                                  |
| <b>B</b> | ✓                                | ✓                                 |                                    |
| <b>C</b> | ✓                                |                                   | ✓                                  |
| <b>D</b> |                                  | ✓                                 | ✓                                  |

- 24 A trader does not keep a full set of accounting records.

How is the profit for the year calculated?

- A** closing capital – opening capital – capital introduced + drawings  
**B** closing capital – opening capital – drawings  
**C** closing capital – opening capital + capital introduced  
**D** closing capital – opening capital + capital introduced – drawings



- 25 During 2014, Roger's credit customers paid him \$6200. They owed \$1800 on 1 January 2014 and \$4300 on 31 December 2014. Cash sales for 2014 amounted to \$26 800.

What were the total sales for the year?

- A \$26 900      B \$29 300      C \$31 100      D \$35 500

- 26 Which item would be entered in a statement of changes in equity?

- A debenture interest accrued  
 B debenture interest paid  
 C ordinary dividend paid  
 D ordinary dividend proposed

- 27 Zed Limited provided the following information.

|                                  | \$      |
|----------------------------------|---------|
| issued and paid up share capital | 200 000 |
| general reserve                  | 30 000  |
| retained earnings                | 15 000  |
| 10% debentures                   | 20 000  |

What were total shareholders' funds?

- A \$215 000      B \$230 000      C \$245 000      D \$265 000

- 28 Gordon provided the following information for the year.

|                            |          |
|----------------------------|----------|
| revenue                    | \$90 000 |
| opening inventory          | \$8 000  |
| closing inventory          | \$2 000  |
| gross profit/revenue ratio | 33.33 %  |

Gordon took goods, \$7000, for his own use.

What were the purchases?

- A \$43 000      B \$47 000      C \$54 000      D \$61 000

**29** Lucy has applied the accounting principle of matching (accruals).

Which action has she taken?

- A** included expenses used but not paid for in the financial statements
- B** included only items which can be expressed in monetary terms in the books
- C** prepared the financial statements assuming her business will continue indefinitely
- D** provided for financial losses as soon as they arose

**30** 'The same accounting treatment should be applied to similar items at all times.'

To which accounting principle does this refer?

- A** consistency
- B** going concern
- C** prudence
- D** matching (accruals)



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